

## Message Text

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ACTION XMB-07

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FM AMEMBASSY KHARTOUM

TO SECSTATE WASHDC PRIORITY 7101

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STATE PASS EXIM

E.O. 11652: N/A

TAGS: EFIN SU

SUBJ: LOCOMOTIVES FOR SUDAN RAILWAYS

REF: A. KHARTOUM 1773; B. KHARTOUM 1677; STATE 141218

1. SUMMARY. GOS HAS REVERSED POSITION AND IS NOW INTERESTED IN SECURING ON URGENT BASIS MINIMUM TEN GENERAL MOTORS (GM) MAINLINE DIESEL LOCOMOTIVES WITH EXIM FINANCING. DECISION CLEARLY REFLECTS (A) GOS DESIRE TAKE POSITIVE ACTION MEET EXISTING TRANSPORT PROBLEMS AND (B) VIEW THAT COMBINATION GM LOCOMOTIVES AND EXIM FINANCING OPTION IS BEST CURRENTLY AVAILABLE. EMBASSY RECOMMENDS EXIM FINANCING BE APPROVED. ACTION REQUESTED: (A) THAT GM BE NOTIFIED OF RENEWED GOS INTEREST AND URGENCY; (B) EMBASSY BE NOTIFIED SOONEST OF GM AND EXIM REACTION (EVEN IF ONLY PRELIMINARY).

2. URGENT NEED: ABDEL MONEIM ABBAS, UNDERSEC MINTRANS AND COMM, REQUESTED CHARGE AND EMBOFF TO CALL SEPT 11 ON URGENT BASIS TO DISCUSS RENEWED GOS INTEREST IN GM LOCOMOTIVES. ABBAS, NOTING HE SPEAKING FOR MIN/TRANS COMM, OUTLINED HISTORY GM INTEREST AND EXIM (INCLUDING LIMITED OFFICIAL USE

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PC DISCUSSED DURING 1972). HE NOTED THAT, WHILE SUDAN

RAILWAYS (SR) APPRECIATED QUALITY OF HVM PRODUCT, IT HAD DECIDED IN 1972 NOT PURSUE MATTER PRIMARILY BECAUSE OF ITS EXPECTATION THAT TEN LOCOMOTIVES TO BE PROVIDED UNDER FRG AID LOAN WOULD BE SUFFICIENT. SITUATION HAS NOW CHANGED AND GOS BELIEVES IT URGENT TAKE ACTION TO MEET TRANSPORTATION CRISIS IN ORDER MOVE GOODS FROM PORT SUDAN UP COUNTRY AND SUDANESE EXPORTS TO PORT. FRG LOCOMOTIVES ONLY JUST TENDERED AND WILL NOT BE AVAILABLE FOR 18 MONTHS AT EARLIEST. IMPROVE MAINTENANCE OF EXISTING FLEET IS ALSO ESSENTIAL AND SR PLACES HIGH HOPES IN THIS REGARD ON AUSTRALIAN ADVISERS NOW BEING PROVIDED UNDER WORLD BANK LOAN. BUT GAP NEEDS TO BE FILLED. ABBAS THUS HOPED GM MIGHT HAVE AN ORDER FROM ANOTHER PURCHASER WHICH COULD BE DIVERTED TO ENABLE DELIVERY IN 3-4 MONTHS, OR EVEN 12 MONTHS WOULD BE FINE.

3. NUMBER REQUIRED: WITH REGARD EARLIER QUERY REF C, CHARGE ASKED NUMBER LOCOMOTIVES REQUIRED. ABBAS RESPONDED THAT TWENTY WOULD BE WELCOME, BUT TEN WOULD BE SUFFICIENT.

4. OTHER SOURCES: CHARGE NOTED HE UNDERSTOOD JAPANESE EMBASSY HAD BEEN APPROACHED FOR EMERGENCY SUPPLY OF LOCOMOTIVES FOR SR. ABBAS ACKNOWLEDGED APPROACH, BUT AID IT HAD BEEN FOR SECOND-HAND LOCOMOTIVES. JAPANESE HAD RESPONDED THEY DID NOT HAVE ANYIN SUFFICIENTLY GOOD QUALITY AND HAD OFFERED LIGHT ENGINES INSTEAD. THIS WAS NOT SR'S NEED; WHAT IT REQUIRES ARE HEAVY DUTY 2150HP LOCOMOTIVES. (NOTE: WE EXPECT OTHER APPROACHES ALSO HAVE BEEN OR WILL BE MADE TO OTHER POTENTIAL SUPPLIERS.)

5. FINANCING: CHARGE RAISED QUESTION OF FINANCING BOTH IN TERMS OF OVERALL GOS DEBT PROFILE, AS DISCUSSED IBRD CG MEETING PARIS (BOWHICH ABBAS ATTENDED) AND AS CITED IMF STANDBY, AS WELL AS FROM STANDPOINT SR'S OWN DEBT PICTURE WHICH U/S HAD OUTLINED TO US IN MEETING TWO MONTHS PREVIOUSLY (REFTEL A). ABBAS ACKNOWLEDGED GOS AND SR WOULD STILL PREFER CONCESSIONAL TERMS, BUT THEY HAD NOT BEEN FORTHCOMING. IN MEANTIME, NEED FOR ADDITIONAL LOCOMOTIVE POWER URGENT. COUNTRY'S DEBT PICTURE CAN ONLY BE IMPROVED IF EXPORT GOODS ARE MOVED TO PORT. FROM SR LIMITED OFFICIAL USE

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STANDPOINT, IF OTHER LESS URGENT REQUIREMENTS SUCH AS WAGONS HAVE TO BE CANCELLED, IT WILL BE DONE.

6. COMMENT: EXCELLENT OPPORTUNITY HAS CLEARLY ARISEN FOR US MANUFACTURER TO BREAK INTO SUDANESE MARKET WHICH (AS NOTED REFTELS A AND B) IS EXCELLENT IN LONG RUN. AS ALSO NOTED (KHARTOUM REFTELS), NOW IS PROPITIOUS TIME TO ACHIEVE COMMERCIAL BREAKTHROUGH BEFORE SR CONSOLIDATES ALREADY

EXISTING TREND TOWARD COMPETITIVE EQUIPMENT. IF WE DO NOT MEET PRESENT NEED, WE BELIEVE OTHER SUPPLIERS WILL. ON OTHER HAND, IT CLEAR THAT BASIC REASON FOR REVERSAL OF EARLIER SR POSITION (REF A) IS POLITICAL. UPHEAVAL OF PAST FEW WEEKS HAS CLEARLY RAISED TRANSPORTATION PROBLEM TO AN EVEN HIGHER PRIORITY THAN BEFORE. NOT ONLY DOES NIMEIRI WISH TO DEMONSTRATE HE IS SOLVING THE PROBLEM, BUT HE ALSO UNDOUBTEDLY REALIZES THAT ACCELERATED ECONOMIC IMPROVEMENT NECESSARY FOR LONG TERM SURVIVAL HIS REGIME AND THAT IMPROVED TRANSPORT IS THE KEY TO SUCH CHANGE.

7. DEBT BURDENS, BOTH NATIONAL AND SR, ARE OF CONCERN. HOWEVER, TRANSPORTATION IS ACCEPTED BY GOS, IBRD, IMF AND ALL DONORS AS MAJOR AND NATIONAL DEVELOPMENT PRIORITY WITH RAILROAD RECOGNIZED AS THE IMMEDIATELY CRITICAL CONSTRAINT. WE UNDERSTAND TOTAL COST OF TEN LOCOMOTIVES WOULD BE ABOUT \$5 MILLION. WHILE WE HAVE SOME GROUNDS FOR REFUSING FINANCING, WE BELIEVE SUCH CONCERNS BETTER EXPRESSED WHERE FEASIBLE ON ITEMS OF DUBIOUS UTILITY OR LOW PRIORITY TO SUDAN'S ECONOMIC DEVELOPMENT RATHER THAN ITS KEY PRIORITY SECTOR. SHOULD SR (OR GOS) DEFER ASSUMPTION LOWER PRIORITY OBLIGATIONS, THERE WILL HAVE BEEN A NET GAIN IN ALLOCATION OF SUDANESE RESOURCES.

8. RECOMMENDATIONS: WE RECOMMEND EXIM GIVE FAVORABLE CONSIDERATION TO MEETING GOS REQUEST ASSUMING GM ABLE SUPPLY LOCOMOTIVES WITHIN 90 DAYS. IF APPROVED, DEPT MIGHT WISH TO INSTRUCT WMC TASSISNLO NOTE THAT WHILE USG DECISION BASED ON GOS PRIORITIES, WE ARE CONCERNED THAT GOS NEARING LIMITS OF VIABLE FINANCE STRUCTURE AND THUS HOPE GOS WILL REVIEW ITS PLANNED PURCHASES AND PRIORITIES.

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9. ACTION REQUESTED: (A) FOR COMMERCE: THAT GM BE NOTIFIED ON URGENT BASIS OF GOS RENEWED INTEREST AND ASKED TO INDICATE QUICKLY ITS INTEREST AND ABILITY SUPPLY LOCOMOTIVES WITHIN TIME FRAME CITED BY GOS. (B) FOR STATE: ABBAS HOPES FOR RESPONSE BY SEPT 17; (C) FOR EXIM: THAT IF GM RESPONSE POSITIVE, INDICATION AS TO APPROVAL NECESSARY FINANCING. FRITTS

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